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MEMORANDUM FOR: Assistant Legislative Counsel

THROUGH: Chief, Economic Research Area

SUBJECT: Submission of Attached Report on US and Soviet Risk
Sharing Through International Reinsurance

REFERENCE: Your request by phone on 3 January 1966

In response to your request for information to provide Senator Mundt on Soviet involvement in US companies' reinsurance operations, the attached report has been prepared in the format suggested by you. A copy of the Journal of Commerce piece that gave rise to the Senator's inquiry and a copy of the article in the International Insurance Monitor that you requested are also attached. Please let us know if additional information is needed.

Enclosures: (3)
As stated.

US AND SOVIET RISK SHARING THROUGH INTERNATIONAL REINSURANCE

1. The foreign insurance operations of the USSR are handled exclusively by a Soviet state enterprise known as Ingosstrakh -- the Foreign State Insurance Administration -- under the USSR's Ministry of Finance. The home office of Ingosstrakh is in Moscow. The Ingosstrakh complex includes the following Soviet-controlled companies in the West: The Black Sea and Baltic General Insurance Company, Ltd. in London; Garant Versicherungs A. G. in Vienna, and Schwarzmeer und Ostsee Transportversicherungs A. G. in Hamburg. These three insurance firms are incorporated under the laws of the countries in which they are located, but controlling stock is held by Ingosstrakh. Local insurance agents of these companies have offices in Paris, Antwerp, Amsterdam, Beirut, and Teheran, as well as in other cities in Canada, Australia, and Nigeria.

2. The major function of the Ingosstrakh group of firms is the insurance of Soviet foreign trade cargoes. Indeed, all the risks borne by the USSR in connection with foreign trade are insured directly with these companies. The Ingosstrakh firms, as a group, then shift a part of their liability for such risks by placing reinsurance with Western companies. The reinsurance of Soviet risks is the chief activity of the Soviet-controlled insurance firms in the international insurance market, centered in Western Europe. Although they accept from West European companies some reinsurance of Western risks, thereby earning premium income, their reinsurance operations are undertaken mainly in order to reduce and diversify their total liability.

3. A US company could share indirectly in a Soviet risk, as follows: The American International Underwriters (AIU), for example, might have a retrocession arrangement with, say, Thames & Mersey Marine Insurance Company, Ltd., Liverpool, England. The essence of such an arrangement is that AIU would agree to reinsure automatically a given percentage of any reinsurance business written by Thames & Mersey. The identity of the insured normally is neither disclosed nor inquired about. Some of the reinsurance accepted by Thames & Mersey, and hence by the AIU, might include Soviet risks insured by the Ingosstrakh group. The connection between a US company and the Ingosstrakh group would be even more indirect if the Soviet risks covered by Thames & Mersey, had been received by the latter through its retrocession arrangement with another Western insurance company.

In the same way, the Ingosstrakh organization could share in a US risk; e.g., if Thames & Mersey parcelled out to Ingosstrakh under a retrocession arrangement a fixed share of its total reinsurance business, a part of which might be a US risk originally underwritten by a US firm.

4. There is no feasible way in which a US insurance company could participate actively in the international reinsurance market and at the same time avoid indirectly placing or accepting business with the Ingosstrakh group. In the highly competitive field of international reinsurance the refusal of a US company to accept a retrocession involving the reinsurance of some Soviet risks -- even in the unlikely event that it is known beforehand that Soviet business is involved -- would exclude the US company from legitimate and lucrative insurance operations. Moreover, international reinsurance is a business that involves reciprocity and mutual accommodation. Should a US company consistently refuse to accept reinsurance business involving Soviet risks, it would have difficulty in placing its own reinsurance abroad. However, even where Soviet risks are involved, their share of a retrocession arrangement usually would be very small, because Soviet participation in the world reinsurance business is so negligible in size.

5. At the present time US insurance companies do not deal directly with any of the Ingosstrakh firms. American companies fear that claims against these firms might not always be recoverable. Under the retrocession arrangements between US and Western firms, however, the financial security of the US company is not endangered, inasmuch as any claim is recoverable from the Western company regardless of what arrangements the latter has made to secure its own liability. An additional impediment to direct dealings with the Soviet insurance companies is the concern on the part of US companies that a reinsurance treaty with Ingosstrakh, for example, might incorporate retroceded reinsurance of such enemy countries as Communist China, North Korea, North Viet Nam, and Cuba. Business with such countries is, of course, forbidden by the "Trading with the Enemy Act" of 17 September 1950.

6. The USSR engages in direct international insurance operations principally to protect its foreign trade cargoes; it engages in reinsurance to secure the financial soundness of Ingosstrakh's underwriting operations by sharing its liabilities among many insurers. Reinsurance operations also provide the USSR with some foreign exchange income and usually provide a small profit annually. Moreover, the USSR's participation in international marine insurance activity enables the Soviet-controlled firms to keep abreast of trends in worldwide

marine insurance. Other commercial information available through such operations, however, is readily attainable in Western trade and shipping journals. On the other hand, US knowledge of Soviet cargoes might be enhanced somewhat if there were direct relations between US and Soviet insurance companies. In regard to Soviet intelligence collectives, it may be assumed that Soviet officials concerned with diplomatic or commercial business abroad are briefed by Soviet intelligence agencies and may be expected to pass on any information of possible intelligence value. Soviet insurance personnel are not known to have been involved in espionage activities, however, and the reputation of Soviet insurance personnel is generally good in Western business circles.